

Message Text

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ACTION SS-30

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P R 260304Z JAN 74

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 539

INFO AMEMBASSY ABU DHABI

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AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TEHRAN

AMEMBASSY SKIDDA

AMEMBASSY TRIPOLI

S E C R E T JAKARTA 1100

EXDIS

STATE ALSO FOR T/IEP

E.O. 11652: GDS

TAGS: ENRG, ID

SUBJECT: ENERGY: OIL PRICES

REFS: A. JIDDA 330; B. JAKARTA 985 (NOTAL); C. JAKARTA 721
(NOTAL); D. JAKARTA 964 (NOTAL); E. JAKARTA 0155 (NOTAL)
F. TEHRAN 560

1. SUMMARY: WE BELIEVE THAT INDONESIAN LEADERSHIP
WOULD RESIST OIL PRICE REDUCTIONS, DESPITE SOME CON-
CERN ABOUT ADVERSE EFFECTS ON INDONESIAN LDC AND
WORLD ECONOMIES, ARGUING THEIR PRICE IS "REASONABLE"
AND THAT COMPANIES ARE BASICALLY RESPONSIBLE FOR HIGH
PRICES. MOST CONSTRUCTIVE APPROACH WOULD BE TO SOLICIT
INDONESIAN VIEWS, AS CONCERNED MEMBER OF LDC COMMUNITY.
INDONESIA MAY ALSO REACT POSITIVELY TO URGINGS FROM
LDC CONSUMER NATIONS. RECOMMENDATION: THAT HIGH
WASHINGTON ENERGY OFFICIALS ATTEMPT SCHEDULE MEETING
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WITH INDONESIAN OIL CHIEF IBNU SUTOWO DURING HIS VISIT
TO US EARLY FEBRUARY TO OBTAIN HIS VIEWS AND SUGGESTIONS.
END SUMMARY.

2. INDICATIONS HERE ARE THAT IT WOULD NOT RPT NOT BE REALISTIC TO EXPECT INDONESIANS TO TAKE LEAD FOR REDUCTION OR EXERT PRESSURE TO MODERATE OIL PRICE DECISIONS OF OPEC COUNTRIES. RATHER WE SHOULD EXPECT GOI TO RESIST PRICE REDUCTION, ALTHOUGH IT IS UNEASY ABOUT POTENTIAL DISRUPTIVE EFFECT OF HIGH OIL PRICES ON WORLD AND INDONESIAN ECONOMIES AND ON DEVELOPING NATITWS. GOI HAS ALSO BEGUN TO WORRY ABOUT PROSPECTS FOR DECLINING INTERNATIONAL AID TO INDONESIA IN LIGHT ITS INCREASEDHTXPORT EARNINGS. HOWEVER, ATTITUDES OF GOI OFFICIALS REFLECT MUCH STRONGER CONCERN, IN PART FOR DOMESTIC POLITICAL PURPOSES, THAT INDONESIA DO NO LESS WELL THAN OPEC COUNTRIES IN OBTAINING BEST RETURN FOR ITS OIL EXPORTS. GOI CURRENTLY CONCLUDING HARD NEGOTIATIONS WITH FOREIGN OIL PRODUCERS TO OBAIN 85/15 SPLIT OF OIL PROCEEDS IN EXCESS OF \$5 PER BARREL. (REFTEL C). THIS EFFORT FURTHER REFLECTS GOI PREOCCUPATION WITH IMPROVING ITS RETURN ON OIL, BELIEF IT EXERCISED RESTRAINT IN RECENT OIL PRICE INCREASE, AND PERHAPS SOME REGRET IT DIDN'T INCREASE MORE. (REFTEL E).

3. FURTHER AND MORE FUNDAMENTAL CONSIDERATION IS THAT INDONESIA HAS TO OUR KNOWLEDGE NEVER DEVIATED FROM ROLE OF OBSERVER EED FOLLOWER IN OPEC MEETINGS AND DECISIONS. IN RECENT DISCUSSIONS WITH EMBOFFS, GOI

ENERGY OFFICIALS HAVE REACTED AGAINST SUGGESTIONS THAT INDONESIA URGE RESTRAINT ON ITS ARAB PARTNERS IN OPEC. SOME KEY GOI OFFICIALS HAVE COUNTERED THAT CONSUMING GOVERNMENTS SHOULD PUT PRESSURE INSTEAD ON OIL COMPANIES TO KEEP PRICES DOWN. AND STATE OIL COMPANY DIRECTOR IBNU SUTOWO HAS EXPRESSED MISGIVINGS TO AMBASSADOR ABOUT FACT IT WAS USG THAT TOOK INITIATIVE IN CALLING CONSUMERS/PRODUCERS MEETING ALTHOUGH IBNU THOUGHT MEETING WAS GOOD IDEA. (REFTEL B)

4. ON BALANCE, WE BELIEVE INDONESIA WOULD RESPOND
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NEGATIVELY TO ISOLATED US INITIATIVE FOR LOWERING OF OIL PRICES -- THE MORE STRONGLY SO IF IT COMES FROM HIGH LEVELS. WE WOULD EXPECT GREATEST INDONESIAN RESPONSIVENESS TO LDC EXPRESSIONS OF CONCERN FOR THEIR OWN PROBLEMS; GOI EFFORTS TO MEET OIL NEEDS OF INDONESIA'S ASEAN PARTNERS ILLUSTRATIVE OF THIS POTENTIAL. INDONESIANS LIKELY TO COUNTER ANY US OR EEC INITIAOXVES FOR LOWER OIL PRICES WITH DEMAND THAT DEVELOPED NATIONS MUST ALSO SOMEHOW PROTECT LDCS AGAINST INCREASED COST OF INDUSTRIALIZED COUNTRY EXPORTS TO THEM.

5. INDONESIA INCREASINGLY AWARE OF ITS
GROWING STATUS AS POTENTIAL SUPPLIER OF IMPORTANT INCRE-

MENTS OF CRUDE WORLD OIL DEMANDS AND ITS POTENTIAL FOR
INFLUENCE AMONG LDC CONSUMERS IN ASIA. WE BELIEVE
INDONESIA MIGHT RESPOND POSTIVELY AND HELPFULLY TO
SOLICITATION OF ITS VIEWS RPT VIEWS BY HIGH LEVEL
US OFFICIALS. GENERAL IBNU SUTOWO, INDONESIA'S HAIL
CHIEF TO BE IN US EARLY FEBRUARY (REFTEL D). WE SUGGEST
DEPT CONSIDER SCHEDULING APPOINTMENT FOR IBNU TO MEET
AT LEAST WITH ENERGY ADMINISTRATOR SIMON AND STATE UNDER
SECRETARY DONALDSON, AND POSSIBLY WITH SECRETARY SHULTZ.
WOULD STRONGLY URGE THAT SUCH TALKS NOT BE
USED TO PRESSURE FOR INDONESIAN LEADERSHIP WITH OIL
PRODUCERS ON OIL PRICING MATTERS ENBUT RATHER TO OBTAIN
SUGGESTIONS FROM INDONESIA, FROM LDC VIEWPOINT, OF HOW BEST TO
CONCERT EFFORTS OF USG WITH LDC CONSUMER INTERESTS IN FUTURE
PRODUCER/CONSUMER ENERGY TALKS.

6. WE ARE IMPRESSED BY ARGUMENTS SET FORTH IN REF F AND URGE
FAVORABLE CONSIDERATION FOR RECOMMENDATIONS IN PARA 7, WITH
ATTENTION TO LAST POINT OUR PARA 4 ABOVE.
GALBRAITH

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